

COUNCIL WORK SESSION, NOVEMBER 8, 2011

The work session of the Council of the Town of Altavista was held in the Council Chambers of the Municipal Building, 510 Seventh Street on November 8, 2011 at 5:00 p.m.

1. Vice-Mayor Coleman called the meeting to order and presided.

Council members

present: Mr. Ronald Coleman
Mrs. Beverley Dalton
Mr. Charles Edwards
Mr. Bill Ferguson
Mr. Jay Higginbotham
Mr. Michael Mattox

Council members

absent: Mr. J.R. Burgess

Also present: Mr. J. Waverly Coggsdale, III, Town Manager
Mr. Dan Witt, Assistant Town Manager
Mrs. Tobie Shelton, Finance Director
Mrs. Mary Hall, Administration

Mr. Coggsdale advised the purpose of this work session is to discuss with Davenport the financial plan presented by them.

Mr. David Rose advised in August Davenport was retained to serve in advisory capacity to prepare a comprehensive financial review of the Town. The services that they were asked to include were a review of the Town's General Fund, Enterprise Fund, compare the symmetries of the Town versus other localities, look at the Town's debt portfolio for both funds, make some recommendations as it relates to the portfolio, prepare a series of financial policy guidelines for the Town, develop a preliminary plan of finance regarding the General Fund and Enterprise Fund and recommend different ways of looking at the Town's investment of funds after Davenport has reviewed the fund investment. He stated they have studied the Town's historical operations of the General Fund and the Utility Enterprise Fund. They have specific recommendations in regard to fund balances and reserve policies including those that tie into the new GASB 54. He stated the Town's debt portfolio has also been analyzed to talk about optimal analyzing and restructuring. The Town's key financial/debt ratios have been compared to peer towns across the state. He stated he has reviewed the five year General Fund and Utility Fund CIP put together by staff. Specific recommendations have been made on the funding of these. In addition, the debt portfolio has been reviewed and has received specific recommendations on debt policies to be enacted. The cash flow cycle has also been evaluated; looking at it over the past several years so the Town never has to sell itself short. He gave Council some overviews of goals and objections. He stated it is Davenport's hope that this is a framework to ensure that the Town remains financially strong given the uncertain financial times. He presented Council with recommended actions that are unique to Altavista. He stated the goal objective is to establish a multi-year plan of finance for the Water and Sewer Fund so it will ultimately become self-supporting. With this plan, we will minimize or avoid the pressure of the utility on the General Fund. This will ultimately give the Town, assuming there are no unforeseen circumstances with Abbott or others, the potential to reduce the general property tax rates in two, three or four years from now if the Enterprise Fund becomes self supporting. Mr. Rose stated there is a series of policy guidelines and they want to make sure these are maximized. He talked about Investment Management Strategies to maximize the earnings without compromising the legality of what is suppose to be done with the safety and liquidity of the principal. He stated safety is number one; no way no how do you sell an investment and lose money. Mr. Rose highlighted with Council the Global

Observations/Executive Summary. He noted the Town has a General Fund and a separate Utility Enterprise Fund. There are strong fund balance/reserve levels in both. The healthiest local governments have self-supporting Utility Enterprise Funds. In the Town's case, in recent years, the Town has been subsidizing the Utility Enterprise Fund with annual General Fund revenues. He stated the General Fund has a relatively more undesignated fund balance and the terms are that of GASB 54 (\$5.8 million) while the Utility Enterprise Fund has roughly \$3 million. He noted the majority of the Town's outstanding debt lies in the Utility Enterprise Fund (\$3.21 million). The Town has a variety of fund balances with earnings between 15 basis points and 1.00%. He mentioned the State's Local Government Investment Pool (LGIP) is currently paying 15 Basis Points for Overnight Investments. He offered some recommendations in regards to the General Fund. He stated the General Fund is well managed. The five year revenue growth has outpaced expenditure growth. The undesignated fund balance is currently strong and above peer averages. He recommends the Town implement a formal undesignated fund balance policy that has a general fund at 100% of annual revenue. This will allow the Town to take away a lot of the reliance on one industry and be in a position if something bad happens, a few years to work through some of those problems. The Town also has the ability, but it is not desirable, to loan some monies to the Utilities Enterprise Fund. He stated the debt levels are low compared to peers and stated there are some "best practices" benchmarks. He asked Council to consider using a combination of debt and equity (some of the cash flow that the General Fund currently produces) to take care of your capital projects in the general fund; basically do some small borrowing as well as some equity funding in the course of the next year or two years for the general fund projects identified by Council. In order to pay the debt in regard to General Fund, they recommended layering in because of the drop off in the existing debt service. The Town also has ample "Debt Capacity" to fund currently projected capital projects. How many dollars could be used and not be beyond the peers? Another recommendation going forward is to consider combining borrowing for the General Fund projects with borrowing for Utility Fund projects to maximize economies of scale in terms of issuance costs, staff time and Council time. He covered the recommendations for the management of Debt Portfolio. Mr. Rose said he knew Council has been under pressure to pay off the debt. He stated, looking at the analysis, it is good that Council did not pay off the debt. He offered a break even analysis on what to do with the outstanding debt. He stated if the Town believes for the next 12 or so years interest rates will be below one percent, then you should pay off the debt. If you believe in that timeframe on average the interest rates will be above one percent, the Town is better off to refinance this debt. He stated Davenport can only show a trend of what interest rates have done over a period of time because history is the greatest teacher and feels interest rates will remain over one percent over the next twelve years. As a result of this, Davenport is recommending refinancing; and feels there will be sufficient debt service savings.

Mr. Edwards questioned what the rate would be if the Town refinanced.

Mr. Rose felt it would be approximately three percent.

Mr. Edwards asked if the Town was going to borrow three percent, it seems to him the only reason not to pay off is the likelihood that we would invest at higher rates down the road than is being paid on these notes.

Mr. Rose responded that is only part of it because it has something to do with just the interest rates and the dollars sit there and grow and build on themselves and the funds. It's not just the interest rates that you are paying out and the rates you are borrowing; this is called a present value calculation and has to be done for regulatory purposes. If refinancing is done, and Davenport recommends refinancing if a certain threshold is met of savings called a present value calculation which is ultimately done by Davenport. If this is not met, Davenport does not recommend moving forward on refinancing.

Mr. Edwards stated the point is the funds that have been invested will compound where the funds that are borrowed will not.

Mr. Rose stated when the funds were reviewed closely along with the Capital Improvement Plan, all these pieces have to be put together and if there is several million dollars in capital utilities, Davenport does not look at the present but how to become stronger five years from today or a decade from today. Part of the recommendations is to look backwards and forwards.

Mr. Mattox asked if there were any objections to paying the loans off now and then when a true number comes about with the PCBs and CIP items to move forward with a loan at that time. He felt like a figure should be determined in the next 12 to 18 months. He stated there should be a savings of \$150,000 to \$200,000 in interest cost.

Mr. Rose stated the important thing is the Utility Enterprise Fund strategy for borrowing is not being recommended. They do not recommend borrowing for PCBs now. What they recommend is borrowing certain portions of the utility needs immediately. This will strengthen the overall cash flow going forward for the Enterprise Fund. It will allow the Town not to have to raise rates at the estimated level and perhaps lower the rates. If Davenport does the refinancing, it is possible to pay this off without penalty at any time in most incidents. Mr. Rose recommended locking in with the lower interest rate if the bank gives good interest rates, and then there is the possibility of lower payments. He stated the key is cash is worth more than realized, not immediately but over the next decade to 17 years. He commended the staff with a job well done on the earnings.

Mr. Mattox questioned why not pay off these loans now and pick up the extra \$10,000 a month.

Mr. Rose stated the Town would be a big loser if interest rates even go close to what history is showing.

Mr. Mattox stated he only knows what he is hearing and what he is seeing; long term interest rates are going to stay low for the next two years. Those two years will get us within the window of what we need for the PCBs. He stated he did not understand why the Town was borrowing money to fund a reserve balance.

Mr. Rose stated money was not being borrowed to fund the reserve balance. Money is being borrowed for new capital projects. Borrowing money for a reserve balance is not allowed. He recommended waiting until 2014 to borrow for the PCB project. It is the belief of Davenport that over a 15 to 17 year period, the economy will get started again. History does not show rates staying the same for 17 year periods.

Mr. Mattox asked should they keep cash reserves in case the Town loses a large industry in the next three years. He questioned if the Town is willing to pay a quarter of a million dollars to cover themselves for this.

Mr. Rose stated this debt goes out a dozen years and you have to ask what is going to be the opportunity cost not for just the next two years but for the next 12 plus years. Cash flow wise, if it stays where it is, yes it is a quarter of a million dollars, if it goes to 1%, it is a break even; if it goes north of 1%, it will cost the Town hundreds of thousands of dollars.

Mr. Mattox stated without knowing, Council looks for guidance from Davenport and from the Feds economic forecast.

Mr. Rose discussed the Water and Sewer Fund. Over the last five years, the expenditure growth has outstripped the revenue growth. Revenue growth has essentially been flat with expenditure growth being almost 6.8%. The Water and

Sewer fund is being subsidized several hundred thousand dollars in the last three fiscal years. The good news is the unrestricted cash levels are strong. Under the current Town plan, (the one in place before Davenport) the Town would spend down over the next five years the majority of the fund balances with PCBs playing a factor in this. The point is after five years the capital needs don't go away.

Mr. Edwards asked for an analysis on what would happen to the 7% projection if the PCBs came in at \$4.5 million.

Mr. Mattox mentioned the PCBs are a town wide problem and asked if it was correct for the Enterprise Fund to take care of the town wide problem; should the General Fund be used also to alleviate possible rate increases.

Mr. Rose stated he could not address this as it would be an administrative issue.

Mr. Mattox asked if it was proper practice.

Mr. Rose stated he has seen PCBs being taken care of by Utility Enterprise Funds. Ideally you don't want to have to subsidize the Utility Enterprise Fund. You want to make the General Fund stronger. If Council decides they want to make the PCBs a General Fund obligation, taking it away from the Enterprise Fund, that is a political decision and then it can be paid for from general property taxes.

Mr. Mattox stated they would want to minimize rate increases.

Mrs. Dalton stated PCBs are a waste issue.

Mr. Rose stated the whole concept of the Enterprise Fund is to be self-supporting. Another recommendation is to have a formal policy of a minimal level of unrestricted cash of 50% of expenditures for the Water and Sewer Utility Fund. He also asked Council to take a look at the existing debt that drops off in 2014 in the Utility Fund and strategically layer in new debt. He also recommended using a combination of debt and equity to take care of the capital needs. He addressed the investment of the Town funds. Reserve levels are strong in both. He stated the Town has been doing a very good job with interest rates low. He recommended a series of financial policies to safeguard the Town's funds. He also mentioned stocks are not an option for localities in Virginia. He recommended with the \$12 million of funds at the Town's disposal, \$2 million be kept in overnight funds and the other roughly \$10 million, set up a bid process asking local and regional banks to bid on \$2.5 million pieces (divide up the number of banks or brokerages regardless of the interest rate).

Mr. Mattox questioned if the investments could be taken out of the state.

Mr. Rose answered affirmatively. He stated there are brokerages located nationally that can be invested in. SunTrust for example is an out of state bank. The answer is yes.

Mr. Mattox asked if they came under the Virginia Banking laws.

Mr. Rose said most of the banking institutions are out of state.

Mr. Mattox asked what if you said don't go with one that does not have a charter.

Mr. Rose stated there are lots of banks that have a limited presence that come under the state's abilities and charters. For example sometimes they send out upward to 30 plus banking request but don't expect to receive all those.

Mr. Rose stated he would like to provide Council with "white paper" which consists of all the financial policy guidelines and the recommendations. He asked Council to authorize Davenport to move forward and refinance the existing debt if

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they believe interest rates will be north of 1% on average over a 12 to 17 year period, also borrow some new money for the general fund and for the Water and Sewer Fund (not for the PCBs but for the identified needs). The reasoning for this is to create a balance between the General Fund monies and the Enterprise Fund.

Mr. Kyle Laux reviewed with Council the Town's outstanding debt. On an average the Town is paying about 4.6 percent on the loans.

Mr. Higginbotham questioned if a 3% loan in today's market was good.

Mr. Rose stated it was for a fixed rate. He stated he is not telling Council he knows they can get 3%. The whole focus is if Davenport is given permission to move forward, the Town would take in whatever the various banks offer and it would be the decision of Council to move forward.

Mr. Mattox questioned what percentage of the loan is needed for brokerage and legal fees.

Mr. Rose stated the cost of issuance has already been factored in at a total cost issuance of \$40,000.

Mr. Mattox questioned when the fees would begin.

Mr. Rose stated it would begin when Davenport and the Town closes on the financing.

Mr. Coggsdale suggested Council work on the policies. He would be bringing back some thoughts to the next Finance Committee meeting.

Vice Mayor Coleman asked if there was anything else to bring before Council.

The meeting was adjourned at 6:19 p.m.

Ronald Coleman, Vice-Mayor

J. Waverly Coggsdale, III, Clerk